

**STORAGE NAME:** h0093s1.in

**DATE:** February 11, 1999

**HOUSE OF REPRESENTATIVES  
AS REVISED BY THE COMMITTEE ON  
INSURANCE  
ANALYSIS**

**BILL #:** CS/HB 93

**RELATING TO:** Title Insurance Reserve

**SPONSOR(S):** Committee on Real Property & Probate and Representative Starks

**COMPANION BILL(S):**

**ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:**

- (1) REAL PROPERTY AND PROBATE YEAS 5 NAYS 0
- (2) INSURANCE
- (3) JUDICIARY
- (4)
- (5)

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**I. SUMMARY:**

Current law requires a title insurer ["insurer"] to establish a guaranty fund or unearned premium reserve in addition to their reserve for outstanding losses. The unearned premium reserve cannot be used by the insurer for general purposes; must be held in trust in favor of the holders of title guarantees and policies; and, is to be held available for reinsurance of the title guarantees and policies in the event the insurer becomes insolvent. The insurer may invest the reserves, and the income from such investment must be included in the general income which the insurer may use for any lawful purpose.

Current law also provides that the unearned premium reserve shall consist of not less than: (a) the amount of the unearned premium reserve in existence on June 30, 1992; and (b) a sum equal to 30 cents for each \$1,000 of net retained liability under each title insurance policy on a single risk written on or after July 1, 1992. The adequacy of the reserve existing on December 31, 1992, must be determined in accordance with the reserve requirements existing on July 1, 1992. CS/HB 93 changes the year from 1992 to 1999 with regard to the previously listed dates.

Under CS/HB 93, the release schedule for unearned premium reserves would be changed from a 12 year release schedule of 8.34 percent per year to a 20 year release schedule characterized by a 30 percent release the first year and one percent releases in each of the final five years. The bill would actually create two releases schedules. One schedule would be for unearned premium reserves established before July 1, 1999 and would include specific dates for the release of these funds. The other would be for unearned premiums reserves established after July 1, 1999, and would include a generic 20 year release schedule from the date the reserve was established. These schedules are almost identical -- the only difference between them is the release in the third and fourth years. One releases 15 percent and 5 percent the third and fourth years, while the other releases 10 percent in each of these years.

CS/HB 93 further provides that if the amount of the reserve stated in the actuarial opinion is greater than the sum of the known claim reserve and the unearned premium reserve, then the insurer must deposit the difference into the unearned premium reserve.

The bill has no fiscal impact on state or local government.

See "Comments" section for issues regarding several of this bill's provisions.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

**RESERVE REQUIREMENTS**

***Florida Law***

Under current statutory law, a title insurer ["insurer"] must maintain two types of reserves:

1. An insurer must retain adequate **loss reserves** sufficient to cover its unpaid losses, claims and expenses for which the insurer may be liable and for which the insurer has received notice by or on behalf of the insured.<sup>1</sup> See Fla. Stat. §§ 625.101; 625.111.<sup>2</sup>
2. In addition to the reserves required above, an insurer shall establish, segregate and maintain a guaranty fund or **unearned premium reserve** to be used for reinsurance in the event the insurer becomes insolvent. Fla. Stat. § 625.111.

Section 625.111, F.S., states in pertinent part that the **unearned premium reserve** must consist of not less than an amount computed as follows:

- (a) The amount of the unearned premium reserve on June 30, 1992; and
- (b) A sum equal to 30 cents for each \$1,000 of net retained liability under each title insurance policy on a single risk written on or after July 1, 1992.<sup>3</sup>

Accordingly, the amount in reserves for each insurer throughout the state is different depending upon the number of policies the company writes.

***Title Insurers Model Act***

The National Association of Insurance Commissioners (NAIC) drafted the Title Insurers Model Act in 1983 (revised April 1996). The NAIC suggest that when establishing an unearned premium reserve, one should keep in mind that there can be a wide difference among insurers as to the correct reserve requirement.<sup>4</sup> Reserve requirements may change over time

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<sup>1</sup>The purpose of the reserve is to "cover all unpaid losses, claims and allocated loss adjustment expenses arising under title insurance policies, guaranteed certificates of title, guaranteed searches and guaranteed abstracts of title, and all unpaid losses, claims and allocated loss adjustment expenses for which the title insurer may be liable and for which the insurer has received notice by or on behalf of the insured, holder of a guarantee or escrow or security depositor." Section 10, Title Insurers Model Act, April 1996.

<sup>2</sup> If an insurer's loss reserves are inadequate, the Department of Insurance must require the insurer to maintain a **supplemental loss reserve** in the needed additional amount. Fla. Stat. § 625.101.

<sup>3</sup> In 1992, the Legislature changed the basis for determining the amount to be deposited into the unearned premium reserve to a percentage of the liability on the face of the policy instead of a percentage of the premiums collected during a calendar year. ch. 34, § 1(b), 1992 Fla. Laws, 389-390. This remains the law today. Fla. Stat. § 625.111(1)(a)(b).

<sup>4</sup> NAIC Title Insurers Model Act, s. 10, B, ftnt 2.

according to the insurer's varying exposure to risk. Therefore, according to the NAIC, the reserve requirements are best determined by each state.<sup>5</sup>

The NAIC's Title Insurers Model Act does, however, provide in pertinent part, the following:

- (a) The amount of the statutory or unearned premium or reinsurance reserve on the effective date of this Act, which balance shall be released in accordance with the law in effect at the time such sums were added to the reserve; and
- (b) Out of total charges for policies of title insurance written or assumed commencing with the effective date of this Act, and until December 31, 1997, a title insurer shall add to and set aside in this reserve an amount equal to [insert amount] of the sum of the following items set forth in the title insurer's most recent annual statement on file with the commissioner:
  - i) Direct premiums written;
  - ii) Escrow and settlement service fees;
  - iii) Other title fees and service charges including fees for closing protection letters; and
  - iv) Premiums for reinsurance assumed less premiums for reinsurance ceded (transferred) during year.
- (c) Additions to the reserve after January 1, 1998, shall be made out of the total charges for title insurance policies and guarantees written, equal to the sum of the following items, as set forth in the title insurer's most recent annual statement on file with the commissioner:
  - i) For each title insurance policy on a single risk written or assumed after January 1, 1998, [\$500,000 an insert amount] per \$1,000 of net retained liability for policies under d [insert amount] per \$1,000 of net retained liability for policies of \$500,000 or greater; and
  - ii) [insert amount] of escrow, settlement and closing fees collected in contemplation of the issuance of title insurance policies or guarantees.

The NAIC's Title Insurers Model Act addresses supplemental reserves as follows:

A supplemental reserve shall be established consisting of any other reserves necessary, when taken in combination with the reserves required by Subsections A and B of this section, to cover the company's liabilities with respect to all losses, claims and loss adjusted expenses. Title Insurers Model Act, § 10 (C), April 1996.(Subsection A, NAIC Title Insurers Model Act, references the statutory reserve and subsection B references a percentage of premiums.)

## **RELEASING UNEARNED PREMIUM RESERVE**

### ***Florida Law***

Section 625.111, F.S., provides that the adequacy of the unearned premium reserve existing on December 31, 1992, must be determined in accordance with the unearned premium reserve requirements existing on July 1, 1992, and the reserves must be released in 12 equal

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<sup>5</sup> For example, other states set aside the following reserves on a \$100,000 policy: MO \$15 (\$0.015 per \$1,000 liability); PA \$11(\$1 per policy + \$0.10 per \$1000 liability); TX \$25 (\$0.25 per \$1000 liability); CA \$23 (4.5% of revenue); VA \$14 (\$1.50 per policy + \$0.0125 per \$1000 liability); MN \$23 (10% of total premiums); and LA \$0. American Pioneer Title Insurance Company's Comparison of Statutory Premium Reserve (SPR) for a \$100,000 Policy, Florida Calculation vs. Calculation of Domiciliary State (12/31/98).

annual installments (or approximately 8.34 percent) beginning with the calendar year 1993.<sup>6</sup> Section 625.111(2)(a), F.S. With regard to amounts reserved on or after January 1, 1993, the insurer must release amounts reserved during a particular calendar year in 12 equal annual installments, beginning in the subsequent calendar year.

Some title insurance companies assert that Florida's method for the release of unearned premium reserve requires insurers to reserve more money than is actuarially necessary and disadvantages Florida insurers competing in other states. For instance, American Pioneer Title Insurance Company, which has an almost 8 percent share of Florida's title insurance market, reportedly holds \$17 million in unearned premium reserves which, according to its own actuarial study, is three times the indicated reserve level of \$5.5 million.

Also, according to the Department of Insurance, Florida insurers are bound by Florida's reserve requirements even when writing policies in other states. According to the NAIC, most states have this same requirement. Florida's reserve rates are higher than some other states' reserve rates. For example, Florida requires insurers to reserve \$0.30 per \$1,000 of liability while states such as Missouri (\$0.15 per \$1,000) and Texas (\$0.25 per \$1,000) require insurers to reserve less. Therefore, on a \$100,000 title insurance policy sold in Missouri, a Florida insurer would have to reserve \$30 while a Missouri insurer would only have to reserve \$15.

#### ***Title Insurers Model Act***

The NAIC's Title Insurers Model Act provides the following schedule with regard to the release of the unearned premium reserves to the net profit of the insurer:

thirty-five percent (35%) of the aggregate sum on July 1 of the year next succeeding the year of addition; fifteen percent (15%) of the aggregate sum on July 1 of each of the succeeding two (2) years; ten percent (10%) of the aggregate sum of July 1 of the next succeeding year; three percent (3%) of the aggregate sum on July 1 of each of the next three (3) succeeding years; two percent (2%) of the aggregate sum on July 1 of each of the next three (3) succeeding years; and one percent (1%) of the aggregate sum on July 1 of each of the next succeeding ten (10) years. Title Insurers Model Act, § 10 (B)(d), April 1996.

#### **B. EFFECT OF PROPOSED CHANGES:**

The release schedule for unearned premium reserves would be changed from a 12 year release schedule of 8.34 percent per year to a 20 year release schedule characterized by a 30 percent release the first year and one percent releases in each of the final five years. The bill would actually create two releases schedules. One schedule would be for unearned premium reserves established before July 1, 1999 and would include specific dates for the release of these funds. The other would be for unearned premiums reserves established after July 1, 1999, and would include a generic 20 year release schedule from the date the reserve was established. These schedules are almost identical -- the only difference between them is the release in the third and fourth years. One releases 15 percent and 5 percent the third and fourth years, while the other releases 10 percent in each of these years.

These release schedules would be substantially similar to the schedule provided in the current NAIC Title Insurers Model Act.

All domestic insurers would be required to obtain a Statement of Actuarial Opinion from a Fellow in good standing of the Casualty Actuarial Society regarding the insurer's loss and loss adjustment expense reserves, including: reserves for known claims; adverse development on known claims; incurred but not reported claims and unallocated loss adjustment expenses. If the amount of the

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<sup>6</sup> Prior to 1992, the unearned premium reserves were to be released at a rate of 5 percent of the original amount of such reserve for 20 years. Fla. Stat. § 625.111 (1991). In 1992, s. 625.111, F.S., was amended authorizing release of the reserves in 12 equal annual installments. ch. 34, § 1(b), 1992 Fla. Laws, 389-390.

recommended reserve level stated in the actuarial opinion is greater than the sum of both the known claim reserve and the unearned premium reserve, then the insurer must add the difference to the unearned premium reserve. The additional actuarial reserves are to be released according to the schedule quoted immediately above.

Smaller title insurers, because of their size, could experience a higher risk of loss than larger title insurers. A higher risk of loss could lead to an actuarial opinion with a higher recommended reserve level. Pursuant to this bill, when a smaller title insurer's recommended reserve level increases, it will owe more money into the reserve. This may create a financial concern for smaller title insurance companies.

An insurer, which receives a waiver of the requirement to obtain an actuarial analysis from the Department of Insurance, would be exempt from this bill's actuarial provision. The implication is that there is a provision which authorizes the Department of Insurance to grant a waiver of the requirement to obtain an actuarial analysis. No such provision exists in the bill. In reviewing the statutory provisions, a waiver provision was found in s. 624.424, F.S., but it only authorizes exemptions for title insurers from an annual audit, not from obtaining an actuarial analysis.

This bill reenacts the current definitions of "net retained liability" (total liability retained by a title insurer for a single risk, after taking into account the deduction for ceded liability, if any) and "single risk" (the insured amount of any title insurance policy and provides for an exception where two or more title insurance policies are issued simultaneously covering different estates in the same real property).

**C. APPLICATION OF PRINCIPLES:**

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No.

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No.

(3) any entitlement to a government service or benefit?

No.

b. If an agency or program is eliminated or reduced:

No agency or program is eliminated or reduced.

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

No.

d. Does the bill reduce total fees, both rates and revenues?

No.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. Individual Freedom:

a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

No.

b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

No.

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

This bill does not purport to provide services to families or children.

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A.

(5) Are families penalized for not participating in a program?

N/A.

b. Does the bill directly affect the legal rights and obligations between family members?

No.

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

This bill does not create or change a program providing services to families or children.

(1) parents and guardians?

N/A.

(2) service providers?

N/A.

(3) government employees/agencies?

N/A.

D. STATUTE(S) AFFECTED:

s. 625.111

E. SECTION-BY-SECTION ANALYSIS:

N/A

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

F. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None

2. Recurring Effects:

None

3. Long Run Effects Other Than Normal Growth:

None

4. Total Revenues and Expenditures:

None

G. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None

2. Recurring Effects:

None

3. Long Run Effects Other Than Normal Growth:

None

H. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

None

2. Direct Private Sector Benefits:

The private sector may be able to obtain title insurance at a lower premium from Florida domiciled title insurers.

3. Effects on Competition, Private Enterprise and Employment Markets:

This bill may increase Florida domiciled title insurers' ability to compete with out-of-state insurers because the release of unearned premium reserves would be more in line with the practice throughout the country.

I. FISCAL COMMENTS:

None.

III. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.



B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

IV. COMMENTS:

There are several substantive and technical issues associated with this legislation to note.

1. Section 1 of this bill is inartfully worded and appears to create requirements for the *financial statements*, instead of creating requirements to establish a *reserve fund*.
2. The phrase "actuarial provision" is used as a term of art. This phrase may be commonly known and/or used throughout the title insurance industry, however, its meaning is neither defined within this bill nor clear from the context.
3. This bill requires a title insurer to obtain a Statement of Actuarial Opinion from a Fellow in good standing of the "Casualty Actuarial Society" regarding the insurer's loss and loss adjustment expense reserves. However, both s. 624.424, F.S., and the NAIC Title Insurers Model Act refer to the American Academy of Actuaries.
4. This bill provides that an insurer which receives a waiver of the requirement to obtain an actuarial analysis from the Department of Insurance, is exempt from this bill's actuarial provision. This implies that the Department of Insurance has the authority to grant a waiver to title insurers of the requirement to obtain an actuarial analysis. However, there is nothing in this bill, in the department rules, or in the Florida Statutes that would lead one to believe that the department has authority to grant such waivers.

V. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On January 20, 1998, the Committee on Real Property and Probate adopted: (1) a "remove everything" after the enacting clause amendment, and (2) an amendment to that amendment, and adopted the bill as a committee substitute.

The committee substitute by the Committee on Real Property and Probate differs from the original bill in that the committee substitute requires that where the recommended reserve level set forth in the actuarial opinion is higher than both the known claim reserve and the unearned premium reserve then the insurer is to deposit the difference into the unearned premium reserve. The original bill does not include this requirement. The committee substitute also changes the dates which establish the reserve and provides a slightly different release schedule than the original bill.

The committee substitute also provides that certain reserves should be released at five percent during each of the next succeeding three years, instead of two years.

VI. SIGNATURES:

COMMITTEE ON REAL PROPERTY AND PROBATE:

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**DATE:** February 11, 1999  
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